


FAS WORLDWIDE

A quarterly review of Foreign Agricultural Service initiatives and services

United States Department of Agriculture
Foreign Agricultural Service

Spring 2005



*The premiere issue of the new quarterly
magazine covering FAS' worldwide
responsibilities and activities*

FAS Worldwide

A quarterly review of Foreign Agricultural Service initiatives and services

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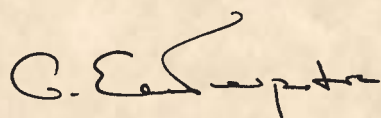
This is the first issue of *FAS Worldwide*, a new quarterly online magazine from the Foreign Agricultural Service, designed to cover the full spectrum of the Agency's responsibilities and activities.

The traditional work of FAS, focusing on market information, trade policy, international linkages and food aid, has grown in scope and size. We are so much more than the small agency formed in 1953.

Today, FAS plays a crucial role in promoting the prosperity of the U.S. food and agricultural sector. We represent U.S. agriculture abroad to preserve, develop and expand markets for America's farmers, foresters and fisheries. We collect and analyze production and trade data, helping to prepare forecasts that assess export marketing opportunities. We foster long-term economic growth and food security in lower income nations.

We work with the Office of the U.S. Trade Representative to negotiate the agricultural portions of trade agreements with our trading partners. We monitor and enforce trade agreements. We provide food aid through a number of programs. We support international science and technology capacity building and other research collaboration among countries. We work to help build the trade capacity of developing trading partners to enhance local, regional and global trade. We assist with reconstruction in nations recovering from natural disasters or conflict and civil strife.

The quarterly electronic publication will allow us to provide more comprehensive information about the multiple goals and activities of FAS in a flexible, user-friendly format. We hope you find the new publication interesting, informative and useful.



A. Ellen Terpstra, Administrator
Foreign Agricultural Service

FAS Worldwide

A quarterly review of Foreign Agricultural Service initiatives and services

Contents

Africa and the Middle East



Regional Analysis

Roundup of Challenges and Opportunities Facing U.S. Exporters 6

Widely varying economies and political systems in Middle Eastern and African countries present opportunities and difficulties for U.S. exporters.



Trade Policy Progress on Agreements 7

Several trade agreements have been concluded or are underway between the United States and countries in the region.

Development

Pathways to Food Security 9

Technical assistance and innovative food aid programs are helping countries in the region.



Market and Trade Trends Competitor Snapshot: South Africa 11



A significant agricultural exporter, South Africa shipped \$3 billion in agricultural products to other nations in 2003. Public-private sector partnerships are supporting these export activities.

Exporter Advice

Building Business Relationships 12

FAS Posts provide advice on markets and setting up business in North Africa and the Middle East.

e-Sources 13

Selected Web resources with general information on Africa and the Middle East.

The Americas



Regional Analysis and Trade Policy

CAFTA-DR Will Open Markets 14

The outlook is bright for proposed Central America-Dominican Republic-U.S. Free Trade Agreement provisions.

Market and Trade Trends

Spotlight on Costa Rica: More Than a Tourist Destination 18

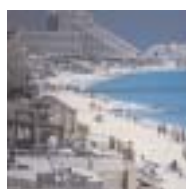
Stability and democracy score big points in this CAFTA-DR market.



Regional Notes

Trade Shows Help U.S. Exporters Succeed in the Americas 19

FAS-sponsored trade shows provide access to growing markets and guidance for U.S. exporters.



Exporter Advice Argentina, Peru and the Dominican Republic 20

With continued economic stability and reductions in trade barriers, new opportunities exist in these countries for U.S. food and beverage exporters.



Chart Spread Top Markets of the Americas 22

Canada and Mexico take nearly 80 percent of U.S. agricultural exports in the Western Hemisphere, but many smaller markets also show promise.

e-Sources 23

Selected Web resources with general information on the Americas.

Asia and Oceania



Regional Analysis

Pacific Rim Population Growth Offers Export Opportunities 24

Populations in Pacific Rim countries are increasing, becoming more urban and getting older, which could create new opportunities for U.S. exporters.



Trade Policy

China's Growth a U.S. Market Fundamental 26

China's entry into the World Trade Organization provided new and expanded access to this vast and growing market.

Regional Notes

Sharing Scientific Knowledge and Promoting Trade Shows 27

USDA facilitates Chinese officials' knowledge of U.S. sanitary and phytosanitary measures, Japanese officials' understanding of U.S. biotech practices and participation in three trade shows.

Development

Activities in the Asia and Oceania Region Run Gamut of Development Continuum 28

From Afghanistan to Asia-Pacific Economic Cooperation countries, increasing agricultural productivity is the key to trade and economic growth.



Chart Spread

China: A Fundamental Market for U.S. Agriculture 32

U.S. agricultural sales to China surged to \$6.1 billion in fiscal 2004 as sales of many major U.S. commodities shattered previous records.

e-Sources 33

Selected Web resources with general information on Asia and Oceania.

Europe



Regional Analysis

The EU's New Constitution and Some History 34

A new constitution for the European Union has implications for agriculture.



Trade Policy

Consultations, Listening Sessions and Status of U.S.-EU Trade Topics 35

A roundup of issues and policies of importance to Europe and the United States.



Market and Trade Trends In Russia and Poland, Trends Are Portentous and Promising 37

Russia, the world's fastest growing retail market, and Poland, with its large and modernizing retail sector, are replete with opportunities and risks for U.S. exporters.



Exporter Advice

Business Culture and Climate in Russia 39

Here are some ground rules, tips and caveats on doing business in Russia, where U.S. exporters can secure a place only through hard work and assiduous attention.



Chart Spread

U.S. Agricultural Trade in Europe 40

A synopsis of U.S. agricultural, fish and forest product exports to Europe.

e-Sources 41

Selected Web resources with general information on Europe.

FAS Field Office Directory 42

Getting in touch with FAS field offices abroad is quick and easy.



AFRICA AND THE MIDDLE EAST

Regional Analysis

Roundup of Challenges and Opportunities Facing U.S. Exporters

The varying economies and political systems of the Middle East and Africa offer U.S. agricultural exporters both opportunities and difficulties.

Sub-Saharan Africa

Although somewhat improved, the economies of sub-Saharan nations present many challenges. According to the World Bank, economic growth for the region slowed to 2.8 percent in 2002 (the last year for which data are available), down slightly from 2.9 percent the previous year. Net foreign direct investment in the region rose to \$8.9 billion in 2002, but still accounts for less than 1 percent of total world foreign direct investment.

In addition, the World Bank reports that sub-Saharan Africa is the only region in the world where the number of people living in extreme poverty has almost doubled over the last quarter century, from 164 million in 1981 to 314 million today. Africa accounts for only about 1 percent of the global GDP (gross domestic product), despite having 11 percent of the world's people.

Overall, the region is characterized by high population growth, an expanding HIV health crisis and limited financial resources that constrain agricultural

Sub-Saharan Africa at a Glance

| | |
|-----------------------------|-----------------|
| Population | 702.6 million |
| Population growth rate | 2.1 percent |
| GNI (gross national income) | \$346.8 billion |
| GNI per capita | \$490 |



60258

imports and negate growth in agricultural output. In addition, drought and political instability plague vast areas of sub-Saharan Africa.

Middle East and North Africa

The Middle East and North Africa include oil-rich countries such as Saudi Arabia and Kuwait, and poorer countries such as Egypt and Morocco. According to the World Bank, average annual GDP growth in the region remained steady at 3.1 percent during the past decade. In 2003, GDP growth climbed to 5.1 percent, the highest rate in the region since 1991, mainly due to higher oil prices.

The region's most significant economic and social challenge is high unemployment, estimated at over 15 percent of the total potential workforce, with higher numbers in Algeria, Morocco and Libya.

North Africa and the Middle East

Middle East and North Africa at a Glance

| | |
|-----------------------------|-----------------|
| Population | 311.6 million |
| Population growth rate | 1.9 percent |
| GNI (gross national income) | \$689.4 billion |
| GNI per capita | \$2,250 |

import large quantities of agricultural products to compensate for production shortfalls and to meet increasing demand for food and animal feed. U.S. exports to the region totaled nearly \$4.4 billion in fiscal 2004, with bulk commodities such as wheat and feed grains accounting for about 64 percent. U.S. imports from the region totaled \$745 million in 2004, with tobacco and processed fruits and vegetables each accounting for about 20 percent of the total. ■

The World Bank

Web site: www.worldbank.org

Trade Policy

Progress on Agreements

A number of trade agreements have been completed or are under negotiation in the Middle East and Africa. Here's a quick list of agreements and the status of each.

Agreements in Effect

- **U.S.-Jordan FTA.** This free trade agreement has been in effect since December 2001. Virtually all tariff and non-tariff barriers to bilateral trade in all agricultural products will be eliminated within 10 years. U.S. products that are expected to benefit from the agreement include grains such as wheat, corn and rice; soybean meal; poultry; beef; dairy products; apples; honey; and grocery products. U.S. exports to Jordan in 2004 were \$133 million, while imports were about \$2 million.

- **U.S.-Israel Free Trade Area.** This agreement, which took effect in 1985, allows the two countries to protect sensitive agricultural subsectors. Although the United States maintains a significant agricultural trade surplus with Israel, virtually all Israeli agricultural exports to the United States entered duty free in 2002, versus 88 percent of U.S. agricultural exports to Israel.

In 2004, building on efforts that began in 1996, a five-year ancillary ATAP (Agreement on Trade in Agricultural Products) was implemented to address U.S. concerns. The new ATAP provides additional access for U.S. apples, pears, raisins, almonds, dairy and wines. U.S. exports to Israel reached \$554 million in 2004, while imports were \$201 million.

Awaiting Approval

- **U.S.-Morocco FTA.** The U.S. Congress approved the U.S.-Morocco

FTA and President Bush signed the implementing legislation in August 2004. However, Morocco's Parliament is not expected to approve the FTA until later this year. In 2004, the United States exported \$175 million in agricultural products to Morocco, while importing over \$67 million in agricultural products from that country.

The two countries agreed to work together in the WTO (World Trade Organization) toward elimination of export state trading enterprises. They will also establish a forum for addressing bilateral agricultural trade issues.

For U.S. exporters, Morocco will provide preferential market access on all agricultural products according to product-specific schedules. U.S. products expected to benefit from improved market access include beef; grains such as corn and corn products, wheat, sorghum and oats; dairy products; distilled spirits; fruits; vegetables; nuts;



AFRICA AND THE MIDDLE EAST

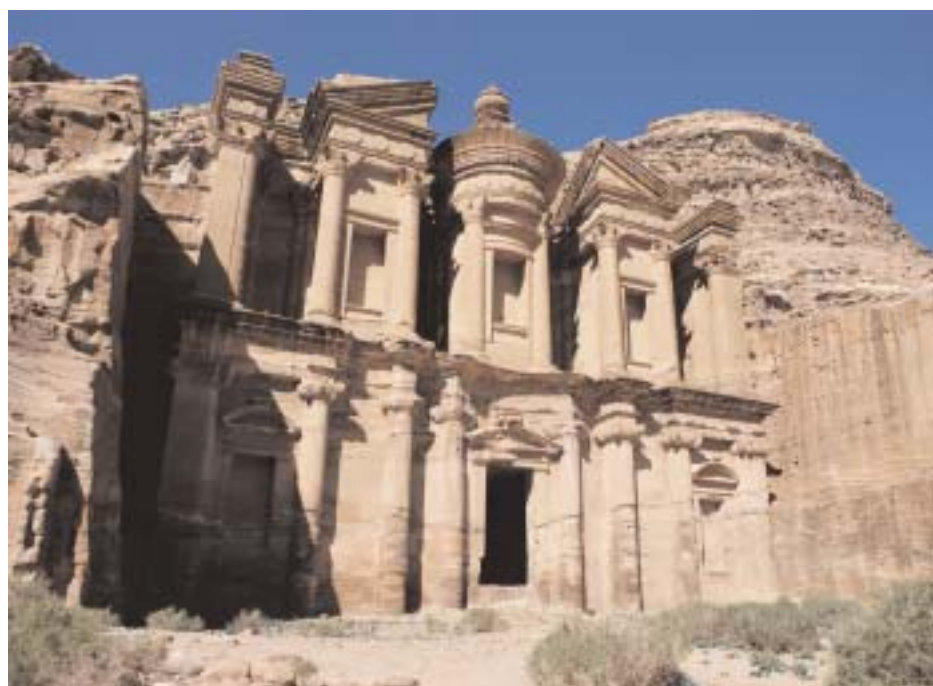
poultry; processed foods; planting seeds; soybeans and other oilseeds; sugar; and wines.

- **U.S.-Bahrain FTA.** This FTA was signed Sept. 14, 2004, and is awaiting Congressional approval. In 2004, the United States exported over \$22 million in agricultural products to Bahrain. Upon implementation of this agreement, 81 percent of U.S. agricultural exports to Bahrain will be duty free. Tariffs on the remaining agricultural products will be phased out within 10 years. This agreement should expand opportunities for U.S. exports of meats, fruits and vegetables, cereals and dairy products.

Agreements in Negotiation

- **U.S.-SACU FTA.** The United States and the five member countries of the SACU (Southern African Customs Union, made up of Botswana, Lesotho, Namibia, South Africa and Swaziland) launched negotiations toward an FTA in 2003. Although progress toward conclusion of an agreement has been slow, discussions continue. U.S. agricultural exports to SACU members were \$211 million in 2004, while imports reached \$201 million.

SACU duties are high for several products of interest to U.S. exporters, including beef, pork, poultry, horticultural products, processed foods, grains and oilseeds. For many of these products, EU (European Union) exporters enjoy special tariff preferences in the South African market under the EU-South Africa trade agreement.



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- **U.S.-Oman FTA and U.S.-UAE FTA.** On Nov. 15, 2004, the U.S. Congress was officially informed of the Administration's intent to negotiate FTAs with Oman and the UAE (United Arab Emirates). Negotiations are expected to begin in March 2005. The United States exported over \$360 million to the UAE and over \$24 million to Oman in 2004.

WTO Accessions

There are currently 148 members of the WTO, with 21 countries waiting to join. The most important U.S. market on this list in the Africa and Middle East region is Saudi Arabia. U.S. exports to Saudi Arabia were over \$353 million in 2004, with imports totaling about \$3 million. Agricultural negotiations between

the United States and Saudi Arabia have been ongoing. Recent talks have focused on Saudi Arabian compliance with the WTO sanitary and phytosanitary agreement as well as the technical barriers to a trade agreement. In addition, negotiations continue on tariffs.

U.S. negotiators are providing technical assistance to Algeria to strengthen that country's efforts to join the WTO. Other countries in the Africa and Middle East region that have applied for WTO membership include Azerbaijan, Cape Verde, Ethiopia, Seychelles and Sudan. ■

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ITP_EAMED@fas.usda.gov

Web site: www.fas.usda.gov/itp/agreements.html

Development

Pathways to Food Security

While a number of nations in Africa are prospering, many other countries—especially in sub-Saharan Africa—face serious economic and social problems, civil unrest, agricultural shortfalls and severe hunger. To help address those issues, FAS activities in the region tend to be focused on development, technical assistance and food aid programs. Here are just two examples of programs underway.

Famine Early Warning Systems

FAS has teamed up with USAID (the U.S. Agency for International Development) on its FEWS NET (Famine Early Warning Systems Network) project to share satellite imagery and field data for low-income countries in Africa. FEWS NET monitors early signs of potential threats to food security in 18 African countries. Information sources include remote sensing and ground-based meteorological data, crop and rangeland conditions, household information, nutritional data, market activities and food prices.

FAS shares technical support and remote sensing data for this longstanding USAID-funded program to help countries throughout sub-Saharan Africa that are struggling to meet their basic food needs. The information gathered is critical in making food aid decisions. The partnership also helps improve national crop estimates and validates and enhances spatial models used to monitor African crop yields. The data and analyses also are used

in technical assistance and training, development and contingency planning and capacity building.

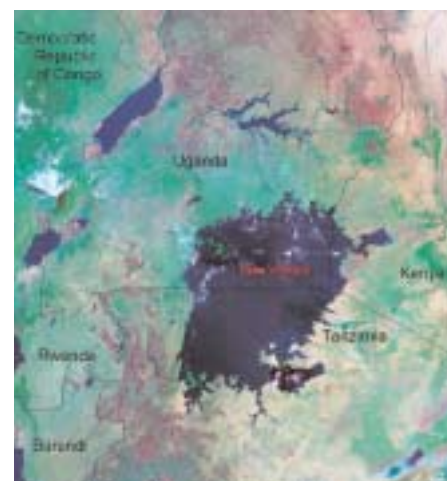
FEWS NET staff members collaborate with national and regional early warning and response networks in Africa. The U.S. Geological Survey, the National Aeronautics and Space Administration and the National Oceanic and Atmospheric Administration are also active partners in FEWS NET.

Curt Reynolds, FAS Production Estimates and Crop Assessment Division, E-mail: Curt.Reynolds@usda.gov

Web sites: www.fews.net/www.pecad.fas.usda.gov/cropexplorer/fews_briefing/

Food for Education

The FFE program (McGovern-Dole International Food for Education and Child Nutrition Program) helps support



This image produced from remote sensing technology shows that in mid-January 2005, Lake Victoria had the lowest water level of the past 13 years, due to drought in Kenya. This affects downstream hydropower generation, pumping for irrigation, water lily harvesting and fishing along the White Nile River.



World Food Program/R. Maass

AFRICA AND THE MIDDLE EAST

education, child development and food security in many African countries. It provides for donations of U.S. agricultural products, as well as financial and technical assistance, for school feeding and maternal and child nutrition projects in low-income, food-deficit countries that are committed to universal education.

The FFE program was authorized by the Farm Security and Rural Investment Act of 2002 and is named in honor of Ambassador and former Senator George McGovern and former Senator Robert Dole for their efforts to encourage a global commitment to school feeding and child nutrition.

The key objectives of the program are to reduce hunger and improve literacy and primary education, especially for girls. By providing school meals, teacher training and related support, FFE projects help boost school enrollment and academic performance.

For fiscal 2004, FFE projects have



WFP/Wendy Stone

been approved to help feed over 1.4 million children in Mozambique, Congo, Côte d'Ivoire, Eritrea, the Gambia, Kenya and Malawi.

For example, USDA is donating 5,430 metric tons of U.S. wheat, vegetable oil,

nonfat dry milk and soy protein concentrate to Mercy Corps, a private voluntary organization, for an education program in Eritrea.

Mercy Corps will sell the wheat and most of the vegetable oil to the Eritrean Grain Board and use the remaining commodities for direct feeding. Proceeds from the sales will help fund activities, such as producing, packaging and distributing high-energy biscuits to 20,000 students in 50 primary schools. Proceeds will also be used to encourage rural girls to enroll in school, to train parent-teacher associations in distributing the biscuits and supporting schools, and to implement community-designed school improvements. ■



WFP/Thierry Geenen

*FAS Export Credits Programming Division, E-mail: PPDED@fas.usda.gov
Web site: www.fas.usda.gov/excredits/FoodAid/FFE/FFE.html*

Market and Trade Trends

Competitor Snapshot: South Africa

South Africa, like most agricultural exporting countries, uses a variety of publicly financed export promotion activities to expand sales. These efforts, combined with private sector market development efforts and funding, have helped it become one of the world's leading agricultural exporters with sales of \$4 billion in fiscal 2004.

South African producers and suppliers of agricultural commodities operate under a free-market structure. Tariffs have replaced quantitative controls and imports are freely traded.

DTI (the Department of Trade and Industry) manages the South African government's agricultural export programs, spending close to \$2 million a year for agriculturally related promotional programs. DTI provides assistance and services to South African companies that want to enter the global market, fostering public-private partnerships for trade fairs, trade missions and information sharing and helping exporters make business contacts in major foreign markets.

DTI does export market research, foreign direct investment promotion, outward-selling missions, inward-buying missions, inward-investment recruitment missions and foreign exhibitions. These efforts include trade shows like SIAL in Paris and the Produce Marketing Association Summit in Atlanta, GA. The agency defrays trade show participation costs, matches grants for industry-specific nonprofit trade groups and manages a spe-



60261

cial fund for small, medium and micro exporters.

Contributing to \$1 billion in fresh fruit exports from January through October 2004, the Fresh Produce Exporters Forum plays an important role in the South African export picture. It is a unique consortium of 70 South African companies that account for nearly 90 percent of all South Africa's fresh fruit exports. It works closely with the Deciduous Fruit Producers' Trust, a growers' cooperative umbrella organization.

WOSA (Wines of South Africa) represents South Africa's 360 wine producers, who exported almost \$500 million worth of wines in 2003 and \$420 million in the first 10 months of 2004. This independent, nonprofit organization promotes wines in traditional South African markets such as the United Kingdom, which takes

half of these exports, Germany, the Netherlands and Belgium. The group also has been working to develop new markets in Scandinavia, the United States, Canada and Japan.

WOSA is funded by two sources: a 1-cent per liter levy on all bottled natural and sparkling wines and a \$621,000 annual contribution from the South African Wine Industry Trust. The organization exhibits at major wine shows, holds marketing seminars and brings international journalists, wine buyers and marketers to South Africa to meet growers and vintners to learn about how they are upgrading vineyards to meet international preferences. ■

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AFRICA AND THE MIDDLE EAST

Exporter Advice

Building Business Relationships

To be successful selling products abroad requires homework and careful planning. Even in neighboring countries, business environments can be quite different. Here are some exporter business tips provided by FAS offices in Africa and the Middle East.

Tunisia

Tunisia has a population of 10 million and enjoys one of the highest levels of purchasing power in Africa. Consumers are growing more sophisticated; demand for high-value food products is growing.

Doing business in Tunisia requires direct contact with customers, either personally or through a local agent who serves as a trade facilitator and sometimes as an interpreter. Tunisia's official language is Arabic, and the second language is French. U.S. products have a reputation for high quality, but many Tunisian importers consider price the key determining factor. Be prepared for demanding price negotiations.

According to Tunisian law, labels must be in Arabic, although another language may be included. Measurements must be in metric units. Food packaging materials must meet Tunisian standards that stipulate that the container directly in contact with food be made of food-grade material. The container can either be labeled as "material fit for food contact" or feature an international food grade logo.

The Tunisian dinar is not freely convertible, and the Central Bank of Tunisia

strictly controls the Tunisian banking system.

Algeria

Algeria has more than 31 million citizens and is one of Africa's largest agricultural importers. Most Algerians have traditional diets, but as the number of women working outside the home increases, more consumers are turning to consumer-ready or semi-processed products. Algeria's energy sector drives its economy, accounting for more than 90 percent of export earnings, 30 percent of gross domestic product and 60 percent of government revenue. Algeria is the world's largest exporter of liquefied natural gas.

French is still the predominant business language, so promotional materials in French have an advantage with importers. Algeria uses the metric system.

Most importers are located in large cities and import both bulk and packaged products through the main ports of Algiers, Oran, Bejaia and Jijel. The products are distributed to wholesale markets, and then sold in small stores, supermarkets and open markets.

GCC-5

The GCC-5 (Gulf Cooperation Council-5) is a homogeneous group of five small nations—the UAE (United Arab Emirates), Kuwait, Qatar, Bahrain and Oman. Together they have a population of 10 million. Reliant on oil for their revenues, all have high per capita income levels and import about 90 percent of their food and feed needs.

To be successful in these countries, exporters must learn local market conditions and requirements. Visiting the region to make personal contacts can be invaluable. Repeat visits are also important, as they show an exporter is serious about sales. Participation in the Middle East's largest food show, the biennial Gulf Food, held in Dubai, UAE (next show is in 2007), should also be scheduled. Nearly 70 percent of the U.S. exhibitors at this show return.

Exporters should target reliable, respectable importers. The FAS office in Dubai can provide a directory of companies in the region that import U.S. products. The directory is organized by product category, brand and company.



e-Sources

Exporters should bring samples (an important tool to introduce products) and be prepared to discuss marketing strategy and promotional assistance. To encourage introduction of new-to-market products, exporters should offer to assist with advertising and in-store displays.

Given the size of these markets, exporters should be willing to fill smaller-than-typical orders, consolidate shipments or share a shipment with another exporter. Importers will want to buy small initial quantities, particularly of new-to-market products, to determine their market potential and test the supplier/buyer relationship.

Exporters should be prepared to discuss price, preferably on a C&F (cost and freight) basis—and even price discounts. Exporters should factor in the cost of label modification to meet local regulatory requirements. Labels must be in Arabic and English, and include production and expiration dates.

Exporters should be wary of agency agreements. These are exclusive or sole distributorship agreements for a company's products in a selected country or even a region. Such agreements have been virtually impossible to terminate without penalty in some of these markets, even where the local company fails to comply with the agreement. Agency agreement laws are being relaxed in these countries. Legally, such agreements are no longer required in the UAE or Oman. ■

A list of FAS offices abroad, including those covering Africa and the Middle East, is on pages 42-47.

WAICENT Portals

WAICENT's (the World Agricultural Information Center) Information Finder is part of the United Nations Food and Agricultural Organization's commitment to improve access to timely and relevant technical information on agriculture and food security. This site has portals for Africa and the Middle East, respectively.

Web sites:

www.fao.org/waicent/st/level_2_cp.asp?main_id=10&sub_id=165

www.fao.org/waicent/st/level_2_cp.asp?main_id=10&sub_id=2724

Southern Africa Global Competitiveness Hub

The Southern Africa Global Competitiveness Hub supports poverty reduction in the region by increasing trade and investment flows with the rest of the world and providing expertise to reduce trade barriers.

Web site: www.satradehub.org/

TRADE Initiative

The TRADE (Trade for African Development and Enterprise) Initiative of USAID (the U.S. Agency for International Development) was created to help African countries improve their competitiveness and gain greater access to global markets.

Web site: www.usaid.gov/locations/subsaharan_africa/initiatives/trade.html

AGOA

AGOA, the African Growth and Opportunity Act, which passed as part of

the Trade and Development Act of 2000, provides beneficiary countries in sub-Saharan Africa with the most liberal access to the U.S. market available to any country or region with which we do not have a free trade agreement.

Web site: www.agoa.gov/

East and Central Africa Global Competitiveness Hub

The East and Central Africa Global Competitiveness Hub supports poverty reduction in East and Central Africa by increasing trade and investment flows with the rest of the world and providing expertise to reduce trade barriers.

Web site: www.ecatradehub.com/home/index.asp

West African Trade Hub

The West African Trade Hub is a USAID-financed center established to enhance West Africa's trade competitiveness.

Web site: www.watradehub.com/

Africa and Middle East

USDA's Economic Research Service offers a significant body of research and analysis on international agriculture. The site provides a collection of data, publications and other products and services.

Web site: www.ers.usda.gov/topics/view.asp?T=103002 ■





THE AMERICAS

Regional Analysis and Trade Policy

CAFTA-DR Will Open Markets

With the U.S. food and agricultural marketplace mature and farmers and ranchers producing more than ever, the only avenue to assure growth and profitability for U.S. farmers is to develop foreign markets.

Steadily expanding demand in foreign nations (with 96 percent of the world's population) has helped U.S. exports increase over time, from \$7.3 billion in 1970 to last year's record \$71.2 billion.

CAFTA-DR, the Central America-Dominican Republic-U.S. Free Trade Agreement, promises nearby expansion of exports, as member countries approve the agreement. In calendar 2003, 46 million customers in Central America and the Dominican Republic purchased \$1.6 billion worth of U.S. agricultural products. Averaging a \$70-million per year growth rate, this market promises bountiful returns as reduced tariffs and other market access provisions of the agreement click in.

Member countries include five Central American signees—Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. The Dominican Republic came on board later.

U.S. commodities expected to gain—and in some cases regain—market share lost to countries with existing trade preferences include poultry, beef and dairy products, soybean products, rice, apples, pears and cherries.

The United States is the region's single largest foreign source of agricultural





2223

CAFTA-DR Work In Progress

With the ink barely dry on this free trade agreement, representatives from Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua are regularly meeting with technical experts from the Office of the U.S. Trade Representative and USDA. The meetings provide a forum to combine trade capacity building and SPS

(sanitary and phytosanitary) technical assistance areas.

Priorities include ironing out disparities in integrated SPS regulatory information systems, upgraded laboratory infrastructure and analytical methods capacity, risk assessment methodologies and risk mitigation methods.

goods, accounting for 41 percent of imports by value in 2001. However, U.S. share declined from 54 percent of total imports in 1995, due in large part to preferential access conditions afforded third countries through bilateral trade agreements with Central American nations.

What CAFTA-DR Means for U.S. Agriculture...

More than half of current U.S. farm exports to Central America will become duty-free immediately, including high-quality beef cuts, cotton, wheat, soybeans, key fruits and vegetables, processed food

products and wines. Other tariffs will be phased out over differing time periods.

...and the Central American and Dominican Republic Economies

Historically, free trade promotes economic prosperity and democratic princi-



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THE AMERICAS

ples in developing countries, even in the face of economic challenges. The agreement promises new hope for easing poverty, fostering development and strengthening democracy.

The rule of law will be strengthened as will transparency to counter corruption. Strengthening trade ties will create new economic opportunity, eliminate tariffs, open markets, promote transparency and establish state-of-the-art rules for 21st century commerce.

Tariffs Take Bite Out of Profits

Average allowed tariffs for these countries under their WTO (World Trade Organization) commitments are high: Costa Rica averages 42 percent; El

Guatemala Leads in GDP and Population

| Country | Population | GDP (gross domestic product) | Government |
|--------------------|--------------|------------------------------|------------------------------------|
| El Salvador | 6.6 million | \$31 billion | Republic |
| Guatemala | 14.3 million | \$56.5 billion | Constitutional democratic republic |
| Honduras | 6.8 million | \$17.55 billion | Constitutional democratic republic |
| Nicaragua | 5.4 million | \$11.6 billion | Republic |
| Costa Rica | 4 million | \$35.34 billion | Constitutional democratic republic |
| Dominican Republic | 8.8 million | \$52.7 billion | Representative democracy |

Salvador, 41 percent; Guatemala, 49 percent; Honduras, 35 percent; Nicaragua, 60 percent; and the Dominican Republic, over 40 percent.

Although applied tariffs for many products are lower, these tariffs restrict U.S. exports. Elimination of these tariffs

will create many preferences for U.S. exporters over other suppliers, such as those in Canada, Europe, South America and other Central American countries, helping restore lost U.S. market share and expand overall U.S. exports.

The agreement also provides a secure, predictable legal framework for U.S. investors in the region and establishes a working group process to coordinate and resolve trade issues among the countries.

U.S. Door Open

Over 99 percent of agricultural exports (on a trade-weighted basis) from Central America and the Dominican Republic enter the United States duty-free. The United States imported over \$2.3 billion from the region in 2003. The vast majority of these imports are crops in which the United States is not competitive, such as coffee and tropical fruits. ■



TR006286

FAS Asia and Americas Division,
E-mail: AA-ITP@fas.usda.gov

Web sites:

[www.fas.usda.gov/itp/agreements/
regional.htm](http://www.fas.usda.gov/itp/agreements/regional.htm)

[www.ustr.gov/Trade_Agreements/
Bilateral/CAFTA-DR/Section_Index.html](http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA-DR/Section_Index.html)

Many U.S. Best Sellers Will Benefit

| Commodity | Tariff Before Agreement | Tariff After Agreement | Average Value of U.S. Exports to Region (2003) |
|------------------------------------|--|---|--|
| Feed grains | Up to 45 percent | For yellow and white corn, combination of immediate elimination to phase-outs over 4 years to duty-free TRQs (tariff-rate quotas) in perpetuity or phased out over 15 years; for barley, oats and rye, immediate tariff elimination | \$280 million in corn; \$10 million in other feed grains |
| Food grains | 0-1 percent for wheat; 15-60 percent for rice | Immediate tariff elimination for wheat; flour tariffs phased out over 12-15 years; duty-free TRQs for rice over 10-20 years | \$178.3 million in wheat; \$84 million in rice |
| Soybeans and meal | 1-5 percent import tariffs in 3 countries; WTO-bound duty rates in 3 countries | Tariffs eliminated in all but Costa Rica, where meal tariffs phased out over 15 years | \$201 million |
| Poultry meat | WTO-bound tariffs of 30-250 percent; applied up to 164 percent | All tariffs to be eliminated, many within 10 years; up to 18 years for others; TRQs established for some; recognition of U.S. poultry inspection system | \$61 million |
| Fruits and nuts | 15-30 percent | Over 70 percent duty-free; another 26 percent phased out over 5-10 years | \$58.5 million |
| Cotton | 0-1 percent applied tariff; bound duties from 35 to 60 percent | Raw cotton duty phased out over 15 years | \$55.4 million |
| Dairy products | Range of TRQs; import tariffs up to 65 percent; bound rates as high as 100 percent | Two-track approach to achieve free trade in 20 years; immediate duty-free access for 10,000 metric tons; immediate duty-free access for in-quota TRQs | \$44.1 million |
| Vegetables and preparations | 15-47 percent | Most at 0 percent; others phase out over 5 years | \$41 million |
| Soybean oil | 0-20 percent; TRQs | Immediate elimination of some tariffs; others phased out over 12-15 years | \$37.6 million |
| Pork | 15-47 percent | All tariffs to be eliminated within 15 years; TRQs set for some products; recognition of U.S. plant inspections | \$18.4 million |
| Soups and broth (dried) | 15-20 percent | Immediate tariff elimination | \$12 million |
| Edible dry beans | 5-25 percent; over-quota tariffs up to 89 percent | Immediate eliminations of some tariffs; others phased out over 5-15 years | \$10.7 million |
| Pet foods | 15-20 percent | Immediate elimination for some products; others phase-out over 5-15 years | \$10.5 million |
| Cookies | 0-20 percent | Immediate elimination for some products; others phased out 5-15 years | \$2.4 million |
| Peanuts and peanut butter | 0-20 percent | Some countries eliminate tariffs immediately; others over 5-15 years | \$1.1 million |

THE AMERICAS

Market and Trade Trends

Spotlight on Costa Rica: More Than a Tourist Destination

Costa Rica, signatory of CAFTA-DR (the Central America-Dominican Republic-U.S. Free Trade Agreement), bought almost \$287 million worth of food and agricultural products from the United States in fiscal 2004.

No newcomer to international trade agreements, the country has already signed on to several—the World Trade Organization; the Central American Common Market; bilateral agreements with Mexico, Chile, the Dominican Republic and Canada; and other international agreements and treaties on trade and intellectual property.

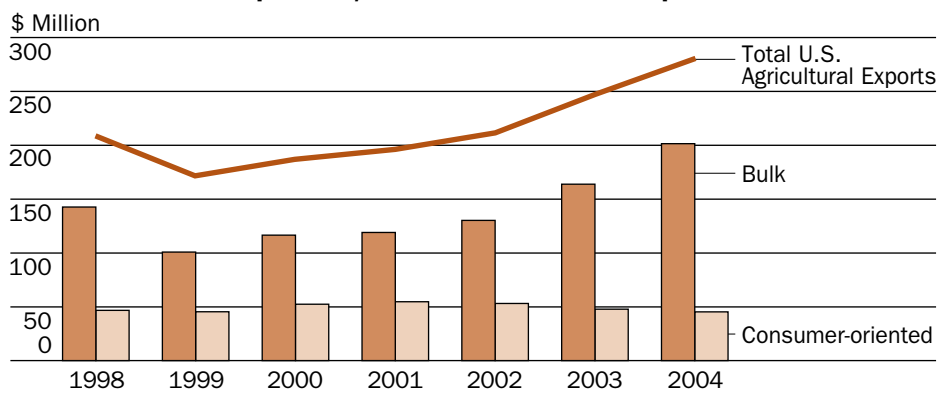
With reduced tariffs declining toward zero over the course of the agreement's implementation and improved market access, Costa Rica promises a significantly expanded market for U.S. food and agricultural suppliers.

CAFTA-DR will also make U.S. exporters more competitive with suppliers from other countries that already enjoy trade agreements with Costa Rica. Bilateral tariff preferences will go into effect once both countries have ratified the agreement.

The country is primarily a bulk market for U.S. farmers. The United States shipped \$201 million worth in fiscal 2004, with yellow corn, soybeans, wheat and rice heading the list.

However, U.S. consumer-oriented exports to Costa Rica, at \$45 million in fiscal 2004, also are an important segment and promise the greatest future growth.

Bulk Products Lead U.S. Exports Now; Consumer-Oriented Products Expected To Benefit From CAFTA



Stability, Democracy Reign

What makes Costa Rica a prime U.S. market in Central America is its years-long record of sustained economic growth. The country's GDP (gross domestic product) was up 5.6 percent in calendar 2003 reaching \$17.2 billion.

GDP growth was characterized by more dynamic evolution in transportation, warehousing, communications and manufacturing and, to a lesser extent, electricity, water production and financial intermediation and insurance.

The inflation rate remained stable at 9.87 percent during 2003. However, it is expected to increase in 2004 mainly as a result of rising oil prices.

Consumers Becoming More Affluent

The United States, Mexico and other Central American countries make up 67 percent of Costa Rica's total import volume. U.S. products made up a healthy 47 percent of food and agricultural imports in Costa Rica in 2003.

Consumer tastes are becoming increasingly varied. Several developments

Costa Rica's Economic Picture in 2003

| | |
|------------------------------|----------------|
| GDP (gross domestic product) | \$17.2 billion |
| Per capita GDP | \$4,180 |
| Exports | \$6.1 billion |
| Imports | \$7.6 billion |
| Inflation rate | 9.87 percent |

Source: Central Bank of Costa Rica

contribute to this trend: a young, mostly urban population making more money, more women working outside the home and tourism expansion.

Best prospects: fresh fruits, wines and spirits, pet foods, candy, fresh vegetables, packaged bread, pasta, sausages, frozen potatoes and sauces. There is also emerging interest in confectionery, dairy products and vegetable oils.

Industry experts predict good outlook for these products: juices, flavorings and other ingredients, salad dressings, beer, wines, liqueurs, snacks, microwaveable foods and canned products. ■

FAS Office of Agricultural Affairs, San Jose, Costa Rica, E-mail: AgSanJose@usda.gov

Regional Notes

Trade Shows Help U.S. Exporters Succeed in the Americas

FAS sponsors over 30 major international trade shows each year that provide high visibility for U.S. companies and allow exhibitors to analyze the local markets and observe their competition.

Canadian Food and Beverage Trade Show

Because of its proximity to the United States, a common language and similar culture, Canada is a top market for U.S. agricultural, fish and forest exports. U.S. exporters recently had the opportunity to

showcase their wares at the annual Canadian Food and Beverage Trade Show in Toronto. FAS sponsored a USA Pavilion at the show, estimated to have drawn more than more than 700 exhibitors and 10,000 trade visitors. The USA Pavilion provided

U.S. exporters and distributors with an easy, cost-effective way to educate buyers from all over Canada about their food and beverage products and to learn first-hand about regional market trends. ■

Upcoming Americas Trade Show Opportunities

SIAL Montreal 2005: April 13-15, 2005, Montreal, Quebec.
Teresina Chin, FAS Trade Show Office,
E-mail: Teresina.Chin@usda.gov

SIAL Mercosur 2005: Aug. 23-26, 2005, Buenos Aires, Argentina.
Sharon Cook, FAS Trade Show Office,
E-mail: Sharon.Cook@usda.gov

EXPHOTEL 2005: June 15-17, 2005, Cancun, Mexico.
Tobitha Jones, FAS Trade Show Office,
E-mail: Tobitha.Jones@usda.gov

ASONAHORES 2005: Aug. 31-Sept. 3, 2005, Santo Domingo, Dominican Republic.
Tobitha Jones, FAS Trade Show Office,
E-mail: Tobitha.Jones@usda.gov



THE AMERICAS

Exporter Advice

Argentina, Peru and the Dominican Republic

Argentina on the Rebound

After two years of economic recovery and a stable exchange rate, Argentina's total imports of high-value food and beverage products are expected to increase from \$450 million in 2004 to about \$550 million in 2005. Premium brands of such products have started to make a comeback, a trend expected to continue throughout 2005.

Since Argentine consumers think highly of popular U.S. high-value food products, the best import prospects are for well-known national brands and food ingredients—especially as most local companies, after the devaluation of

January 2002, have become very competitive in world markets and are focusing on expanding exports. U.S. food and beverage exports to Argentina are expected to increase as a result of high sanitary standards, improved price competitiveness due to the euro's appreciation over the dollar and the popularity of U.S. culture.

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Peru: A Bright Spot in Latin America

Peru's economy is considered one of the most vibrant in Latin America. In 2004, total Peruvian imports of consumer-oriented agricultural products reached \$281 million. Fresh fruits, juices, processed fruits and vegetables, cheeses,



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pet foods, wines and snacks are considered the best prospects for U.S. suppliers. Major competitors are Chile, Colombia, Brazil and Argentina.

Peru offers promising conditions for U.S. products due to increasing processed food consumption, expanding supermarket and fast-food chains and consumers' greater exposure to U.S. food products through the media.

However, some major constraints remain. For instance, supermarkets, the chief source of imported food products, account for only 24 percent of total retail food sales. And a government-sponsored "Buy Peruvian" campaign means new local food brands are appearing in the market at very low prices.

In addition, imported foods with high tariffs are still out of reach for many low-income Peruvians. Tariff rates vary from 12 to 25 percent. Corn, rice, sugar and dairy products are subject to a price band, in addition to a fixed 25-percent tariff. Beer and wine imports face an additional consumer tax of 20 percent.

But changes could be coming, as negotiations are underway on a U.S.-



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Andean Free Trade Agreement that is expected to lower or eliminate tariffs on many food and agricultural products.

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The Dominican Republic: A Warm Handshake Goes Long Way

The Dominican Republic is the fourth largest market for U.S. products in the Western Hemisphere with imports of \$90 million in fiscal 2004. Until recently, the Dominican Republic had one of the best economic growth records in the hemisphere. But in 2003, a banking crisis and other mounting economic problems reduced growth. Dominican imports of U.S. agricultural, fish and forest products, at \$490 million, were down 1.5 percent in fiscal 2004.

However, the country's fundamentally sound economy is expected to recover. A new Dominican president and proposed tax reform renewing a lending agreement with the International Monetary Fund suggest a more stable economy. The country's gross domestic product is expected to grow 4.5 percent during 2005.



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Dominicans are greatly influenced by U.S. culture and have a positive view of U.S. products. Observing Dominican business customs and guidelines can facilitate U.S. exports. Dominican executives conduct most business through personal relationships based on trust. A warm handshake and a friendly conversation should precede the start of business.

The Dominican business community is one of the most aggressive in the region. U.S. suppliers should be prepared to have local representation and to travel to the country.

To enter the market, exporters can use local distributors, wholly owned subsidiaries, joint venture partners or Dominican importers and wholesalers who own retail outlets. Quality and responsiveness in after-sales service also are

becoming increasingly important ingredients in effective marketing strategies.

While most U.S. food and beverage products have good access to the market, meat and dairy products have very limited access. The Dominican Ministry of Agriculture controls beef imports through a restrictive licensing system and pressure on end-users. U.S. beef is served in upscale steak houses but rarely in supermarkets or butcher shops.

The dairy product situation is difficult, unpredictable and expensive. However, access for U.S. meat and dairy products is likely to improve. ■

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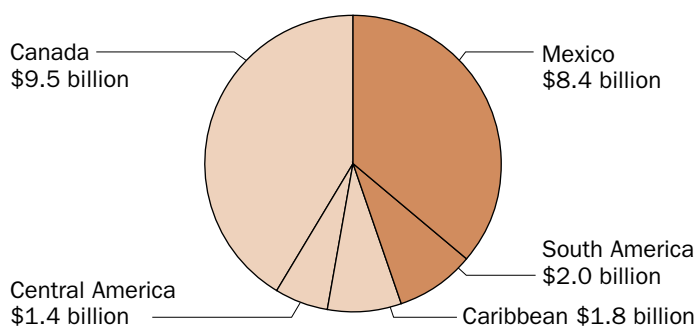
THE AMERICAS

Chart Spread

Top Markets of the Americas

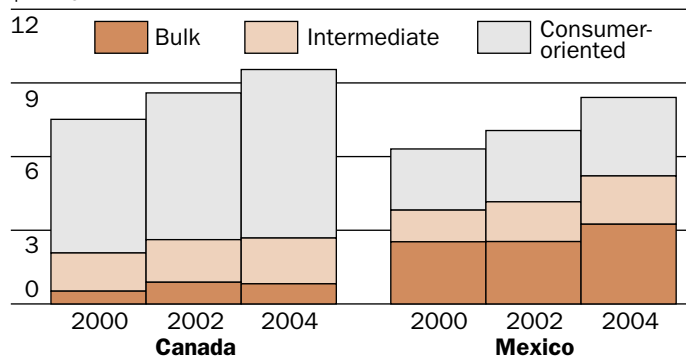
NAFTA Partners Canada and Mexico Account for Nearly 80 Percent of U.S. Agricultural Exports in Western Hemisphere

Total U.S. agricultural exports to markets in Americas, fiscal 2004: \$23.1 billion



Both Markets Continue To Grow, With U.S. Export Sales Setting New Records in Fiscal 2004

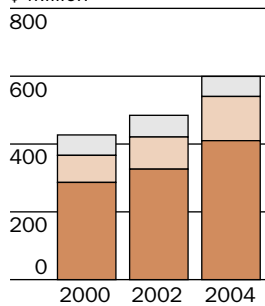
\$ Billion



Top 10 U.S. Export Markets in South America, Central America and Caribbean, Fiscal 2004

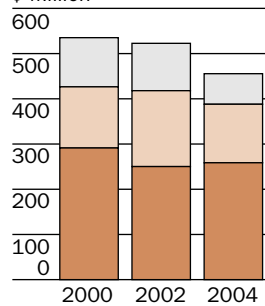
Colombia

\$ Million



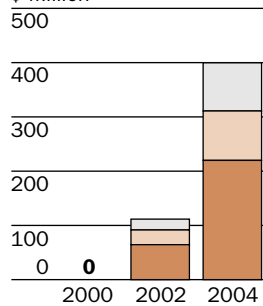
Dominican Republic

\$ Million



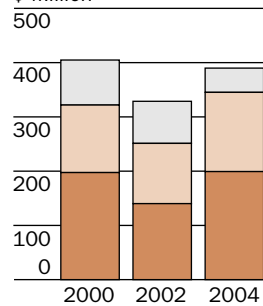
Cuba

\$ Million



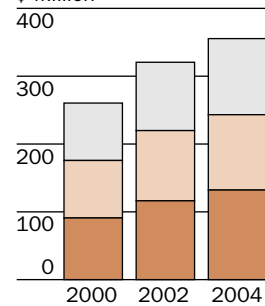
Venezuela

\$ Million



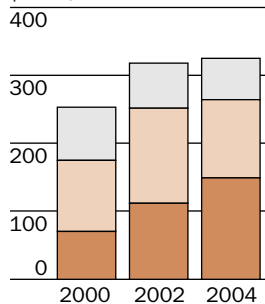
Guatemala

\$ Million



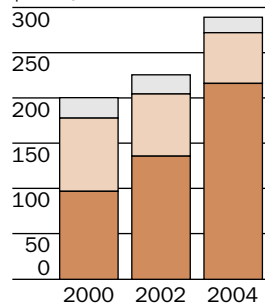
Brazil

\$ Million



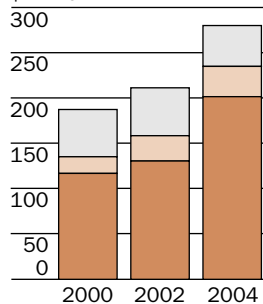
Peru

\$ Million



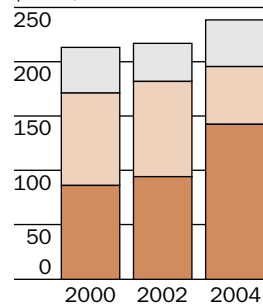
Costa Rica

\$ Million



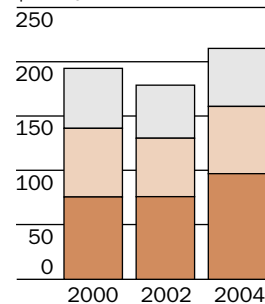
El Salvador

\$ Million



Honduras

\$ Million



All data are for October-September fiscal years. Bulk includes corn, wheat, soybeans, cotton and other raw commodities. Intermediate includes live animals, seeds and semi-processed products such as flour, soy meal, animal hides and vegetable oils. The consumer-oriented category is mainly grocery products such as meats, fruits and vegetables, snack foods and dairy goods. U.S. export data includes food aid to some of the countries.

e-Sources

Chile-U.S. Chamber of Commerce

This Miami, FL-based organization offers information on trading with Chile, as well as links to trade-related events throughout the Western Hemisphere. Most content is available in Spanish only.

Web site: www.chileus.org/espanol/

Inter-American Development Bank, Integration, Trade and Hemispheric Issues Division

Site visitors can get information about trade negotiations and agreements throughout the Americas, as well as

updates about programs the Inter-American Development Bank is implementing to facilitate trade in the region.

Web site: www.iadb.org/INT/Trade/1_english/1_WhoWeAre/1d_AboutITDFrame.htm

FTAA Hemispheric Trade and Tariff Database for Market Access

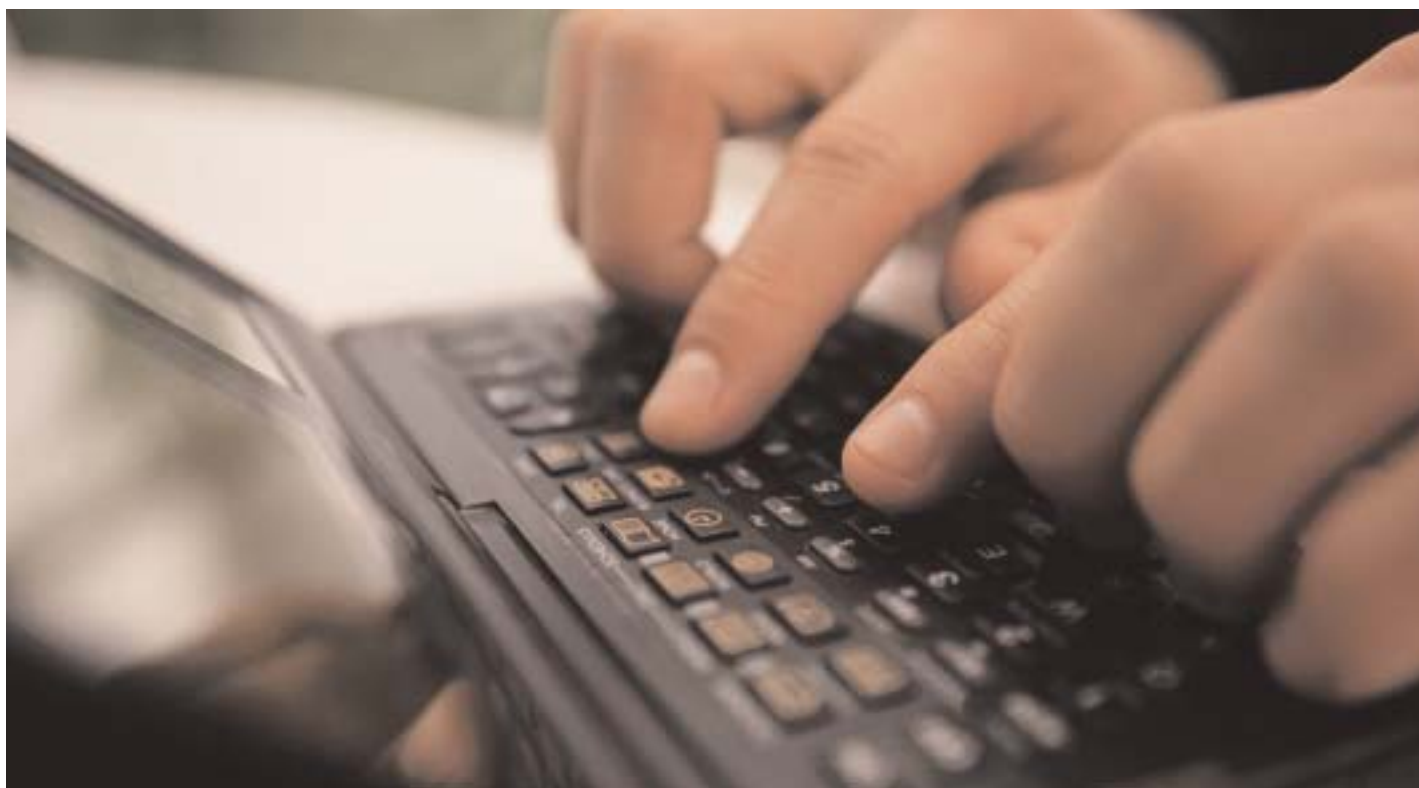
In addition to a complete listing of customs, tariffs and export subsidies proposed by the Free Trade Area of the Americas, this site also offers helpful links and information about imports and exports among participating countries.

Web site: http://alca-ftaa.iadb.org/eng/NGMADB_E.HTM

International Monetary Fund

The International Monetary Fund, an organization of 184 countries, works to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth and reduce poverty. The organization offers extensive information about its many activities and publications.

Web site: www.imf.org ■





ASIA AND OCEANIA

Regional Analysis

Pacific Rim Population Growth Offers Export Opportunities

According to a report by PECC (Pacific Economic Cooperation Council), demographic changes will create dynamic shifts in the Asian-Pacific region's urban populations that, along with other factors, could create new market opportunities for U.S. exporters.

The report, entitled "Where Demographics Will Take the Food System, (Pacific Food System Outlook 2003-2004)," examines demographic changes projected through 2020, assessing demand and supply implications for the region's food supply system.

Overall, the population in these countries is projected to rise by more than 400 million people, a 16-percent increase in the number of people to feed.

The most significant demographic change will be the rapid growth of urban populations. Urban growth will test the efficiency and capacity of the region's food system to deliver a continuous flow of safe, reasonably priced fresh and processed foods.

The number of people living in urban areas is projected to grow by more than 590 million by 2020, an increase of about 45 percent. After 2005, the region's urban population will surpass the rural population for the first time. This rapid growth is explained by higher birthrates, migration of people from rural to urban areas and immigration.

Urban growth is expected to be the most rapid in China and Southeast Asia. The urban populations of Vietnam,



23268

Indonesia, Singapore and the Philippines, the Southeast Asian members of PECC, are projected to grow more than 70 percent. China's growth in urban population, though slightly slower, will add a staggering 300 million people by 2020.

Urban vs. Rural Consumers

Diets in urban areas are more diverse, both in terms of the kinds of foods consumed and their origins. As a result of higher incomes among urbanites, their diets also show predictable substitution of animal products, fruits and vegetables for more traditional foods such as cereals, potatoes and manioc. Urban consumers tend to eat away from home more often, and have a greater preference for convenience foods than their rural counterparts.

Work and lifestyles in urban areas tend to be more sedentary than those in rural areas, lowering per capita caloric requirements.

In addition to urbanization, the aging of the region's population will pose challenges for its food system.

Between 2000 and 2020, average life expectancy in the Asia-Pacific region is expected to rise from 72 to 77 years, and the median age from 30 to 36 years.

With the over-65 population almost doubling to 370 million by 2020, suppliers must adjust to changing food demand patterns and food service requirements.

Japan is the No. 1 net importer of food and agricultural products in the world and the United States' second largest foreign customer. Its aging popula-

tion will begin to decline in 2007, lowering total demand for food—but increasing demand for different kinds of food.

Because of Japan's rapidly growing share of older people, per capita meat consumption is likely to see a significant decline. Older Japanese tend to eat less meat and more fresh fruits, rice and fresh fish.

Older people are also less likely to eat out than are younger people. Consequently, Japanese retirees are more likely to eat their midday meal at home, which has important implications for lunchtime food service. In general, older people tend to prefer convenience, smaller servings and, when they do eat out, full-service restaurants.

The Marketing Factor

Marketing food products in the region will require an increasing focus on densely populated urban centers, such as

THE URBAN POPULATIONS OF VIETNAM, INDONESIA, SINGAPORE AND THE PHILIPPINES ARE PROJECTED TO GROW MORE THAN 70%.

the Hong Kong-Shenzen-Pearl River Delta; Shanghai, China; Jakarta, Indonesia; Bangkok, Thailand; and Manila, the Philippines. Many of these areas have modern port facilities, making them accessible to foreign suppliers.

In some instances, foreign suppliers are more competitive in these coastal urban markets than inland producers who confront inadequate supply-chain infrastructure.



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What the Future Holds

Strong economic forces generated by demographic changes require close attention from food system policymakers. Some demographic changes, such as declining fertility and mortality rates and population aging, take years to become clearly visible.

Others, like rapid urbanization, may have a more immediate impact and may create new and different opportunities for U.S. exporters. ■



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PECC International Secretariat,
Singapore, E-mail: preccsec@pecc.net
Web sites: *Pacific Food System Outlook*
2003-2004 report: www.pecc.org/food/
USDA Economic Research Service article
on report: [www.ers.usda.gov/amberwaves/](http://www.ers.usda.gov/amberwaves/june04/features/WhereWillDemographics.htm)
[june04/features/WhereWillDemographics.htm](http://www.ers.usda.gov/amberwaves/june04/features/WhereWillDemographics.htm)

ASIA AND OCEANIA

Trade Policy

China's Growth a U.S. Market Fundamental

China is one of the world's largest economies, and a vast and growing market for U.S. agricultural products. Rising incomes of China's 1.3 billion consumers have fueled strong demand for U.S. farm products. U.S. agricultural exports to China have surged from about \$1.8 billion in fiscal 2002 to \$6.1 billion in fiscal 2004.

In 2004, China's purchases of soybeans, cotton, hides and skins, tobacco, planting seeds, sugars, sweeteners and beverage bases, red meats, snack foods, processed fruits and vegetables, dairy products and fresh fruits, all set records. (See chart spread on trade with China on page 32 of this issue.)

Today, China is our No. 1 market for soybeans, cotton, and hides and skins and our fourth largest market for wheat. Agriculture is one of the few sectors where the United States has a trade surplus with China.

In recent years, China had a trade surplus in agricultural products. Its primary exports were vegetables, fruits, poultry, processed foods, corn and rice, and its primary imports were soybeans, cotton, wheat, rubber, vegetable oils, hides and offal.

However, in 2003 China was a net agricultural importer, as its purchases rose more than 60 percent to \$17.4 billion, due largely to sharp increases in both the quantity and price of soybean and cotton imports. That year China's agricultural exports were \$15.4 billion, leaving the country with an agricultural trade deficit

of \$2 billion. While the final trade figures for 2004 are not yet available, all indications are that China's agricultural trade deficit widened further due to the sharp increase in imports, particularly of soybeans, cotton and wheat.

The outlook for U.S. agricultural exports to China remains bright, with a forecast of \$4.6 billion for fiscal 2005. This is down by \$1.5 billion from 2004's record due to lower volume and prices for soybeans, combined with lower volume and much lower cotton prices. But China is expected to remain the fifth largest market for U.S. agricultural products this year.

RISING INCOMES OF CHINA'S 1.3 BILLION CONSUMERS FUEL STRONG DEMAND FOR U.S. FARM GOODS.

What Drives This Dramatic Growth

Few countries have been able to match China's sustained economic growth, which has averaged more than 8 percent annually since 1978. Its sheer size and rapid expansion make China's economy a major engine of growth in the global economy.

China has the potential for continued growth in the foreseeable future. The factors that have propelled economic expansion over the past 30 years are still in place. As long as China maintains an open policy toward foreign investment and invests heavily in infrastructure and other capital, it will continue to grow rapidly

and provide new opportunities for U.S. agricultural products.

Since the 1980s, China has embraced foreign trade as a key to economic growth. Tariffs have been slashed, import and export licensing requirements have been dropped for many products, and most government trading monopolies have been eliminated.

China's entry into the WTO (World Trade Organization) was preceded by the series of tariff cuts and other liberalizations typically required of acceding nations during the period leading to its formal accession in 2001. It will take China several more years to fully implement its WTO commitments and realize their impact on trade.

Membership in the global, rules-based trading system subjects China to the same rigorous standards of fairness, transparency and predictability that apply to the United States and other WTO members.

Challenges Ahead

To meet WTO requirements, China has repealed or revised more than 1,100 laws and regulations, reduced tariffs, removed market access barriers and established transparency procedures.

But where implementation has slowed, the United States has acted promptly to achieve results for U.S. farmers—using informal consultations where possible and formal mechanisms where necessary.

Despite the many challenges facing China as it moves to a more market-driven, transparent economy, it remains a growing market of opportunity for U.S. exporters. ■

Regional Notes

Sharing Scientific Knowledge and Promoting Trade Shows

Chinese Government Officials Complete Sanitary-Phytosanitary Training

Last November, 15 Chinese government officials learned how the United States meets its SPS (sanitary and phytosanitary) requirements under the WTO (World Trade Organization). Through classroom presentations and U.S. site visits, the trainees—most of whom were from China's food safety and animal and plant health regulatory agencies—received the information they need to implement their country's SPS Agreement commitments. This training will help China move into full WTO membership while also improving bilateral communication to prevent misunderstandings on food safety and animal and plant health issues. Australia, Canada, the European Union and Japan have provided similar training for Chinese officials.

Daryl Brehm, FAS International Trade Policy, E-mail: Daryl.Brehm@usda.gov



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Japanese Group Sees How the United States Uses Biotechnology

Last August, a Japanese team of three farmers, one college professor, four reporters and one non-governmental organization representative visited the United States to get an up-close look at the use of biotechnology in the United States. In Hawaii, the team saw the U.S. government research laboratory where the first biotech papaya resistant to papaya ring spot virus was developed. This biotech papaya, called Rainbow, saved the Hawaiian papaya industry in 1998. The team also visited a

non-biotech papaya farm and shipper and a grocery store that sells biotech papaya. In the Midwest, the team learned about drought-resistant cassava, the benefits of no-till farming and how crops developed through biotechnology reduce labor, increase yield and require less pesticides. In Washington, DC, the group met with representatives of USDA, the U.S. Congress and the private sector, nonprofit organizations and trade associations. ■

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Upcoming Asia Trade Show Opportunities

FAS will support booths at the following trade shows:

HOFEX 2005: May 10-13, 2005, Hong Kong

SIAL China 2005: May 18-20, 2005, Shanghai, China

Taipei International Food Show: June 15-18, 2005, Taipei, Taiwan

Food and Hotel China 2005: June 28-30, 2005, Beijing, China

Teresina Chin, FAS Trade Show Office, E-mail: Teresina.Chin@usda.gov

ASIA AND OCEANIA

Development

Activities in the Asia and Oceania Region Run Gamut of Development Continuum

Countries in the Asia and Oceania region are at various stages of development—from those struggling to provide basic utility service to their rural communities or others rebuilding their economy after years of repression to those seeking current and emerging technologies to increase agricultural productivity and promote trade and economic growth.

The activities described below demonstrate the depth and breadth of USDA development programs in cooper-

ation with other U.S. government agencies, the private sector, academia and non-governmental or private voluntary organizations to further developing countries' capacity to participate in the global economy.

India Seeks To Reform Power Distribution System

A historic, four-year agreement between USDA's FAS and Rural Utilities Service and the U.S. Agency for International Development will help India's federal and state financial institutions and utilities reform the distribution of electricity.

Currently, electric power delivery is inefficient in rural areas and Indian state power suppliers are in financial crisis.

Technical and commercial losses amount to between 40 and 50 percent of electricity generated in most states or \$6 billion annually, causing state electricity companies to default on their loans and forcing state governments to pay the loans back. As a result, state governments are in debt, sapping federal financial resources and harming India's prospects for economic growth.

Because of the lack of funds, power suppliers have not adequately invested in electric power distribution networks,





Dr. Jeanne Schwaller

resulting in overloaded feeders, poorly maintained substations and aging transformers that create power outages in urban and rural areas. In addition, while more than 80 percent of rural villages are electrified, only about 35 percent of households within those villages have access to electricity because they remain unconnected to the public power system.

The objective of the agreement is to help develop alternative funding and lending mechanisms to reform rural electric distribution. This will be accomplished through technical assistance and training.

*Bruce Crossan, FAS International
Cooperation and Development,
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Afghan Women Help Revive Economy

As **Afghanistan** struggles to overcome years of brutal repression under the Taliban, USDA has enlisted the Cochran Fellowship Program to help revive the country's agricultural economy and strengthen its trade links with the United States.

Last June, 12 Afghan women participated in a two-and-a-half week program in the United States. They learned about business plans, financial management, farmers' cooperatives and micro-credit programs. Micro-credit, when combined with basic business management, can promote food security and non-agricultural, income-generating businesses.

The women—all from rural parts of Afghanistan—hold a variety of jobs rang-

ing from nutrition consultants and veterinary technicians to rural extension agents and village agricultural development teachers.

Since returning home, one of the women presented a proposal to the Ministry of Agriculture to develop an agricultural extension service in 16 Afghan provinces that could potentially



Ed Schwaller

ASIA AND OCEANIA

reach 3,200 families. The Ministry is considering funding the proposal.

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Biotechnology Training Provides Insight

While some countries are just beginning the long journey along the development continuum, others are at a different crossroad. These countries are participating in the global economy, but need more information about new and emerging technologies to make informed choices for their agricultural sectors.

To facilitate the decision-making process, FAS in collaboration with Michigan State University offers a two-

week course several times a year in agricultural biotechnology.

Last May, 10 individuals from **India, Indonesia, Malaysia, Oman** and **Thailand** took the course. They attended sessions in Michigan, Missouri and Washington, DC, on topics as diverse as biotechnology research, development, applications, commercialization, regulatory systems and policies, intellectual property rights, technology transfer, public perception, marketing and trade, and international treaties and conventions.

Participants included scientists, researchers, government officials and university professors. They met with U.S. farmers who grow biotech crops to discuss experiences.

In St. Louis, the participants saw how



Dr. Jeanne Schwaller

a multinational biotechnology company develops and commercializes agricultural products worldwide. They also visited a plant science center to observe biotechnology applications in tropical agriculture.

While in Washington, participants met with representatives from U.S. govern-



Dr. Jeanne Schwaller



Dr. Jeanne Schwaller

ment agencies involved in regulating the products of biotechnology. They also met with international organizations to learn about programs to help their countries build the capacity to use and manage biotechnology products.

*Edwin Lewis, FAS International
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Workshop Participants Form Regional Network

A workshop to help five APEC (**Asia-Pacific Economic Cooperation**) countries build their capacity to use new and emerging technologies, specifically agricultural biotechnology, was held in December 2003 in Manila, the Philippines.

The objectives of the five-day farmer-to-farmer workshop were to increase awareness, expand knowledge and provide first-hand experience in agricultural biotechnology through classroom sessions, panel discussions and field trips.

Attendees visited farms growing biotech corn, toured the International Rice Research Institute's gene bank and saw genetically modified papaya at the Institute of Plant Breeding.

Of the 29 participants, five were **Indonesian** farmers; four were **Malaysian** community leaders, including two farmers; nine were **Philippine** farmers, media representatives and a researcher; six were **Thai** farmers and media representatives; and five were **Vietnamese** farmers.

The participants established a regional farmers' network to exchange experiences and knowledge, ensure responsible farming, accelerate the transfer of appropriate modern technology and engage their communities in these activities.

Since the workshop ended, the Asian Farmers Regional Network has published a newsletter, held two meetings—one in Thailand in February 2004 and another in Indonesia in November 2004. Members of the network have spoken at a high-level APEC meeting and a farmer-to-farmer workshop in Latin America. ■

*Gary Laidig, FAS International
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ASIA AND OCEANIA

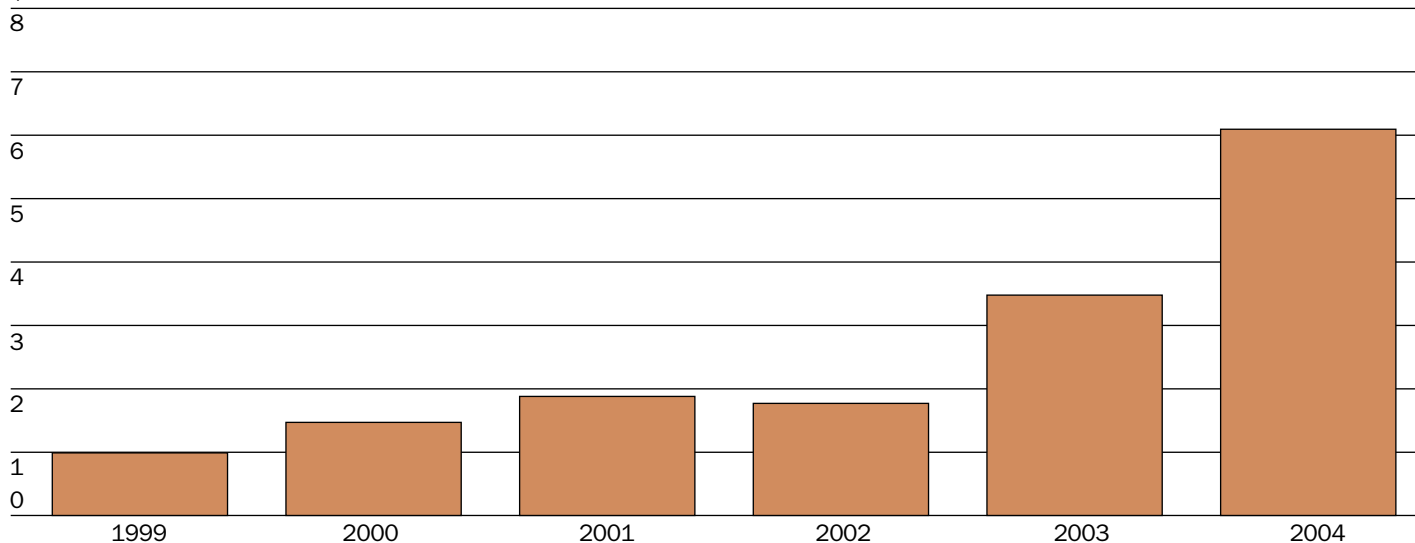
Chart Spread

China: A Fundamental Market for U.S. Agriculture

U.S. Agricultural Exports to China Set Record at \$6.1 Billion in Fiscal 2004

Sales increased \$2.6 billion from 2003.

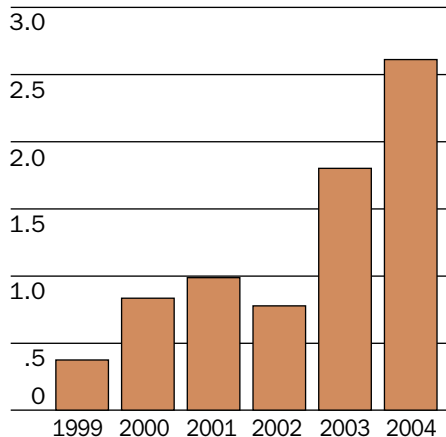
\$ Billion



U.S. Soybean Exports to China in Fiscal 2004 Broke Previous Year's Record for Total Sales

Sales have grown from nearly \$400 million in 1999 to over \$2.6 billion in 2004, far exceeding total U.S. agricultural exports to this market in 2002.

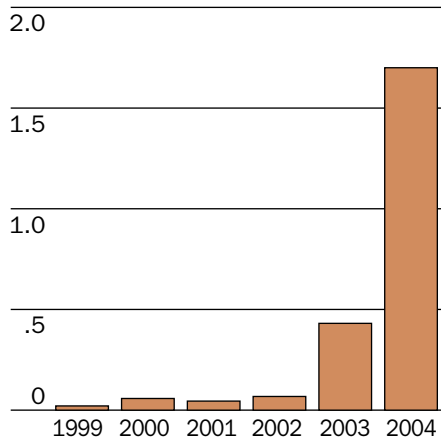
\$ Billion



U.S. Cotton Exports to China Set Record in Fiscal 2004

Sales surged nearly fourfold from just the previous year, and nearly equaled total U.S. agricultural exports to this market in 2002.

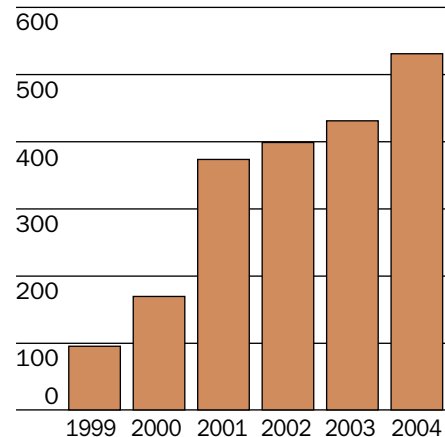
\$ Billion



U.S. Hide and Skin Sales to China Hit New High in Fiscal 2004

Sales expanded over fivefold from 1999 to 2004.

\$ Million



e-Sources

Asia Business Today

This site offers extensive news and information about Asian economies, including information about the agricultural sector and agricultural trade. A directory is available with links to various business and trade groups in every Asian country.

Web site: www.asiabusinesses.com

South East Asia Watch on Trade, Economics and Environment

Available in English, this site offers news and commentary on trade, economic and environmental issues throughout Bangladesh, India, Nepal, Pakistan and Sri Lanka.

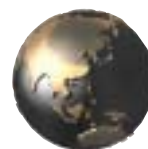
Web site: www.sawtee.org

Pacific Economic Cooperation Council

This organization covers trade issues for the entire Pacific Rim, including countries in Asia, Oceania and the

Americas. The site offers information about various agricultural trade issues. (An article based on a recent report by the council, detailing demographic changes projected in the Pacific Rim, appears on pages 24–25 of this issue.)

Web site: www.pecc.org ■





EUROPE

Regional Analysis

The EU's New Constitution and Some History

A New EU Constitution

In October 2004, the 25 member states of the EU (European Union) and 3 candidate countries signed a treaty to establish a Constitution for Europe.

The constitution introduces changes to EU institutions and voting procedures. Changes related to agriculture include increased powers for the European Parliament; there are also specific requirements on animal welfare, although they are not intended to apply to trade.

The constitution treaty can enter into force when it has been ratified by each of the signatory countries, in accordance with its own constitutional procedures. Although scheduled to be completed by Nov. 1, 2006, the ratification process is expected to be difficult. Many member states will hold referendums on it.

The articles relating to agricultural policy do not differ significantly from the language of previous treaties. This is in itself noteworthy, because the EU's 2003 reform of its agricultural policy was hailed as a fundamental and historic change in the way the EU supports its farm sector. While the true impact of that reform remains to be seen, it did represent a shift from the EU's traditional price support model to income support decoupled from the obligation to produce a specific product. In spite of this, the new constitution retains the same language as previous treaties regarding fair prices to farmers and increasing agricultural productivity.

The new constitution also expands the power of the European Parliament in



22090

the formulation of EU agricultural policy. Along with the European Council, the Parliament will make decisions on legislation (known as the European Laws and European Framework Laws) establishing the Common Market Organizations for agricultural products, an area previously handled through the consultation procedure, under which the Parliament could supply only nonbinding opinion.

However, the power to adopt prices, levies, quotas and fishing opportunities remains with the Council.

The possible impact of the European Parliament's future role in agricultural policy is difficult to assess. On one hand, as EU policy extends to other sectors and member states face budget constraints, the agricultural sector will face competition from other societal concerns. On the other hand, the EU's enlargement increases the number of farmers by nearly 60 percent, while overall population increases by only 30 percent, a demographic shift that could give farmers a larger voice in governmental decisions.

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By Way of Background

The EU, formerly known as the European Economic Community or EEC, was created by the Treaty of Rome in 1957. Through several accessions, the EU has expanded to become the world's largest multi-nation trading bloc. All EU member countries accept the entire body of EU laws and obligations associated with the treaties and agreements to which the EU is a party.

The EEC was originally created as a customs union; the process of harmonizing existing member state legislation has been long, cumbersome and arduous, and is still ongoing. While the vast majority of food laws and regulations have been harmonized throughout the EU, the single EU market is still not a *fait accompli*.

In cases where EU-wide legislation or regulatory harmonization is incomplete or absent, the laws of member states apply, often resulting in different rules in different states. ■

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Trade Policy

Consultations, Listening Sessions and Status of U.S.-EU Trade Topics

EU Requests Consultations with U.S. and Canada on Beef Hormone Case

In November 2004, the EU (European Union) requested consultations with the United States and Canada regarding both nations' continued suspension of concessions related to the EU's 2003 beef hormone directive. The EU believes that continued sanctions by the United States and Canada against certain EU exports because of the EU's ban on hormone beef are illegal, since the EU in its view has removed measures found to be inconsistent with WTO (World Trade Organization) obligations. The EU continues to claim that its recent studies show that growth hormones are not safe. The United States does not believe the EU is WTO-compliant because the EU has not provided any new scientific findings to support its hormone ban.

On Dec. 16, 2004, separate consultations were held at the WTO in Geneva, Switzerland, between the EU and the United States and the EU and Canada. Questions focused on trade impacts of U.S. and Canadian sanctions and how a nation's compliance with a WTO panel is determined.

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EU Requests Formal WTO Consultations on FSC Replacement Bill

In November, the EU formally requested the United States to enter into consultations in the WTO concerning the FSC (Foreign Sales Corporation) replace-



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ment bill. The JOBS Act replaced the FSC legislation on Jan. 1, 2005, and has come under scrutiny from the EU for transitional provisions that allow some U.S. exporters to continue FSC benefits for two years. Subsequently, the European Commission announced plans to temporarily suspend its sanctions against the United States on Jan. 1, 2005, while the EU appealed to the WTO to assess whether certain JOBS Act provisions are WTO-consistent.

If the WTO panel should find against the U.S. law, the EU will re-impose duties at a lower level on Jan. 1, 2006. Opposition from some member states, however, has prevented the Commission from lifting the sanctions, and the issue will need to be reconsidered in 2005. EU sanctions against certain U.S. products have been in place since March 2004 in

the form of an additional 1-percent tariff added every month. Retaliations rose to 15 percent on Jan. 1, 2005.

Mark Ford, International Trade Policy, E-mail: Mark.Ford@usda.gov

EU Announces Retaliation List for the Byrd Amendment

In November 2004, the EU notified the WTO of its retaliation list regarding the dispute with the United States' Byrd Amendment, or the Continued Dumping and Subsidy Act of 2000, which allows companies to receive duties collected from foreign competitors for practices deemed to be unfair. Only one of the products notified to the WTO was an agricultural product (frozen sweet corn), and it is unclear what higher tariff level would apply to this product due to non-agricultural products on the retaliation list.

EUROPE

According to a WTO formula, the EU is allowed to place retaliatory measures against the United States equal to 72 percent of the total Byrd law disbursements made on each country's exports. The EU would be able to retaliate against roughly \$18 million based on fiscal 2003 disbursements. The EU is expected to wait until early 2005 to await fiscal 2004 disbursement data before retaliating and to see whether the new U.S. Congress addresses the issue.

Mark Ford, FAS International Trade Policy, E-mail: Mark.Ford@usda.gov

U.S.-EU Wine Negotiators Press Closer to Agreement

The EU and the United States continue to negotiate a bilateral wine agreement. Both sides have been working intensively to conclude a unified agree-

ment and have resolved longstanding issues concerning wine-making practices and the use of certain label terms for wines sold in the United States. However, there is still no agreement on the use of geographical indications and intellectual property rights. In fiscal 2004, U.S. wine imports from the EU were \$2.3 billion, and U.S. exports to the EU totaled \$426 million.

Mark Ford, FAS International Trade Policy, E-mail: Mark.Ford@usda.gov

U.S.-EU Brown Rice Negotiations

Since Fall 2004, the United States has been engaged in negotiations with the EU, as required under WTO rules, seeking that the EU revise its recently modified import regime for brown rice. On Sept. 1, 2004, the EU ended the decade-old MOP (Margin of Preference) system for rice

imports and substituted a high bound duty on brown rice imports of 65 euros per ton. The United States made clear to the EU that this change is not adequate compensation under WTO Article 28 for ending the MOP. In January, the United States announced plans to raise retaliatory tariffs on EU fruits, vegetables, cheeses and spices under WTO rules. In February, the United States and EU reached an agreement to allow a lower applied import duty and thus strengthen U.S. access. The EU is the top market for U.S. brown rice exports, buying an average of \$33 million worth a year since 1999.

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U.S.-EU Listening Sessions Held in the United States and Europe

From July through December 2004, listening sessions were held to solicit recommendations and strategies from stakeholders (industry, academia, etc.) on how to eliminate trade, regulatory and investment barriers between the United States and the EU. Consensus recommendations will be discussed at the June 2005 U.S.-EU Summit.

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Web sites:

www.ustr.gov/World_Regions/Europe_Mediterranean/Transatlantic_Dialogue/Section_Index.html

www.state.gov/p/eur/rt/eu/c12967.htm ■

Due to the fluid nature of these issues, readers should contact authors for updates.



Market and Trade Trends

In Russia and Poland, Trends Are Portentous and Promising

Russia, World's Fastest Growing Retail Market

Russia is the world's fastest growing retail market, thanks to six straight years of strong economic expansion. According to official sources, total retail turnover in 2003 was \$146 billion (including \$68 billion for food retail turnover), although unofficial estimates place total sales at least 50 percent higher.

The expanding market has caught the attention of domestic and foreign retailers. The retail sector is in a building frenzy, with supermarket chains cloning themselves. Many networks will double in size.

Experts forecast growth will peak by 2012; so for U.S. retail food exporters, the clock is ticking. Moreover, Russia is quite a mature, sophisticated market in which many countries, especially those in Western Europe, are active competitors. However, an expanding economy (with per capita *monthly* income projected to reach \$600 nationwide and \$1,500 in Moscow by 2012), a population of 143 million and favorable euro/dollar and ruble/dollar exchange rates make Russia an important potential market for U.S. exporters.

Consumer surveys and importers suggest that Russians want more U.S. products, and that quality and diversity will become more important.

There are other factors prospective exporters should bear in mind. Russia's geographic size (double that of the



22140

United States, with 10 time zones!) presents a challenge. Its population is 70 percent urban—13 cities have populations of 1 million or more. Most of the total population resides west of the Ural Mountains, in the area known as European Russia. But the Russian Far East offers a natural market from the U.S. West Coast.

Moscow is an engine of growth. With nearly 20 million consumers, the city and its environs account for more than 30 percent of the nation's retail trade, and per capita income is three times the national average. The city also attracts about 40 percent of foreign investment.

However, economic prosperity is spreading quickly to St. Petersburg and other cities. And contrary to what might be expected, retail growth in regional markets is outstripping the rapid retail growth in Moscow.

Retail prices can vary significantly between relatively nearby cities and even

areas within the same city. However, with the spread of large retail chains, pricing is becoming more competitive.

The most visible sign of growth in the retail food sector has been the rapid introduction and expansion of Western-style supermarket chains. Several foreign retailers, including Metro and Auchan, have already opened outlets and announced plans for further expansion in Moscow, St. Petersburg and other cities.

Carrefour opened an office in Moscow in 2003 and is considering opening several hypermarkets there and in St. Petersburg. Other retailers (including Wal-Mart) are also rumored to be eyeing the Russian market.

Several local supermarket chains (Perekryostok, Seventh Continent, Pyatorochka and Kopeika) and one foreign early entrant (Ramstore) have all launched equally ambitious expansion plans. While some of them are focusing on smaller neighborhood stores, the trend is definitely toward increasingly larger supermarkets and hypermarkets. Financing for many of these projects is coming from the Russian oil industry, which is looking for profitable ways to invest its earnings.

A key aspect of the growth of the super- and hypermarket chains is the fact that such stores are more likely to attract middle and upper income buyers. All foreign and most local chains offer bright, clean and convenient facilities, good service and selection and relatively good value. So these outlets offer the best opportunity to introduce and expand sales of U.S. food products. And although they currently account for a relatively small

EUROPE

share of total retail sales, supermarkets and hypermarkets make up one of the fastest growing parts of Russia's retail sector.

The HRI (hotel, restaurant and institutional) sector is making an impressive comeback, as reflected in the growth of fast-food outlets and mid-level restaurants. Total HRI turnover expanded by more than 5.8 percent in 2003 (\$7.5 billion). Among the fastest-growing chains are imports such as McDonald's and Sbarro, and some very successful local chains like Rostiks—Russia's answer to KFC.

While most fast-food franchises source food locally as much as possible to keep costs and prices down, a number of foreign-theme restaurants (American Bar and Grill, Starlite Diner, Planet Sushi, etc.) use some U.S. products and offer good potential for greater imports, including beef, pork, seafood and wines. Portion-controlled and other semi-prepared foods should also gain in popularity. Expansion in upscale restaurants will continue to offer the best prospects for high-end U.S. wines, marbled beef and specialty seafood.

Meanwhile, the increasing sophistication of local food processors is increasing competition for some imports. But rapid growth in domestic processing is creating opportunities for a wide range of food ingredient imports. Also, as the Russian economy improves and consumer incomes grow, processors are finding it necessary to source new and better ingredients to maintain market share.

Olga Taybakhtina, FAS Agricultural Trade Office, Moscow, Russia, E-mail: Olga.Taybakhtina@usda.gov

Poland's Retail Transformation

Poland's retail sector continues to undergo radical transformation, spurred by the country's modernization, growing consumer incomes and accession to the EU (European Union) on May 1, 2004. Hypermarkets are projected to expand to over 300 by 2005 and will account for about 50 percent of retail food sales in the next five years. The growing popularity of hypermarkets is reflected in their increasing number of outlets, and the fact that they are becoming the main source of household supplies for many consumers.

However, prospects for U.S. sales are hampered by stiff Polish and other EU competition, stringent food ingredient regulations, EU biotechnology constraints and costly terms to get products onto large retailers' shelves.

Foreign capital and new standards of distribution and trade have not only shown Polish retailers new ways of operating their businesses, but also challenged them to create their own methods to attract and retain customers. Polish retailers also have begun concentrating and consolidating processes to strengthen their market position in the face of globalization. However, given the limited investment possibilities for local companies, rapid growth in the retail market share held by foreign companies (virtually all West European) seems inevitable.

Nevertheless, compared with Western Europe, the Polish retail trade is still fragmented, with 38 percent (15 million people) of the population living in over 50,000 villages. The fact that 98.6 percent of retail companies have no more than two shops is further evidence of the dis-



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persed retail structure. Organizations owning more than 20 shops represent less than 0.1 percent of companies in this sector.

In 2003, the rate of growth of shops with floor space exceeding 400 square meters was 11 percent. This growth rate likely will slow in coming years. The rapid growth in the number of super- and hypermarkets of the 1990s has also slowed.

While U.S. exporters confront several major challenges in this new EU market, including time-consuming and expensive certification procedures, prospects may improve due to the weakened U.S. dollar and rising consumer incomes. Goods such as wines, distilled spirits, dried fruits (prunes), nuts (almonds, peanuts), grapefruit and some seafood (salmon) have found a stable place on shelves of retail outlets in Poland. ■

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Exporter Advice

Business Cultures and Climates in Russia

Doing Business in Russia

As in many markets, business relationships in Russia are usually built through personal contact. While sales can be negotiated by telephone, fax or e-mail, any attempt to develop a successful, long-term trade relationship will require direct, personal contact.

When you travel to Russia to visit potential trade partners, don't expect to close a deal in a few days. A successful partnership may take months to develop.

Keeping the Customer

You can sell once to a Russian company, but unless you become an active partner in helping it market the product, the company will not buy from you again.

Russia is no longer a new market, but is a sophisticated, competitive environment. To succeed, U.S. companies must promote their products, countering the predominant market position of West European competitors. Providing basic marketing and promotional support are key to a long-lasting and profitable relationship with your Russian partner.



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Don't expect to do everything at the U.S. pace. Many things simply move at a different speed. For example, getting around by car or taxi in major cities, such as Moscow and St. Petersburg, can be frustrating and time-consuming. Build extra time into your schedule—you will probably need it.

Several alternative marketing strategies can be used to enter the Russian market:

- Sell directly to a Russian importer/distributor/processor.
- Use a U.S. trading or export management company.
- Sell to an agent/consolidator in Western Europe.
- Establish your own import and distribution facilities in Russia.

A U.S. company operating on its own will generally pay higher customs fees, face more difficult inspection procedures and contend with more administrative delays than would a local importer. Many successful exporters use a Moscow- or St. Petersburg-based trading company to facilitate trade. Most imports sold in Western Russia pass through these cities. For the Russian Far East, Vladivostok is home to most importers and the principal import and transshipment point.

If an exporter is willing to invest the time and effort to establish a representative office, then dealing directly with fast-growing Russian processing companies may provide better margins and the opportunity to respond quickly to clients' demands.

Selecting the right trade partner is probably the most important thing in developing your business in Russia. An



22143

experienced and reliable importer can help you avoid costly mistakes. Banking and supplier references are essential, as is an examination of the prospective partner's experience and business history. Some local and U.S.-based organizations can help provide this information. However, credit reporting is still a relatively new practice in Russia, and credit reporting agencies may not have complete information on potential business partners.

Finally, pay attention to business fundamentals. Business basics—knowing your market, putting the customer first and offering quality products—are as essential in Russia as in any other market. ■

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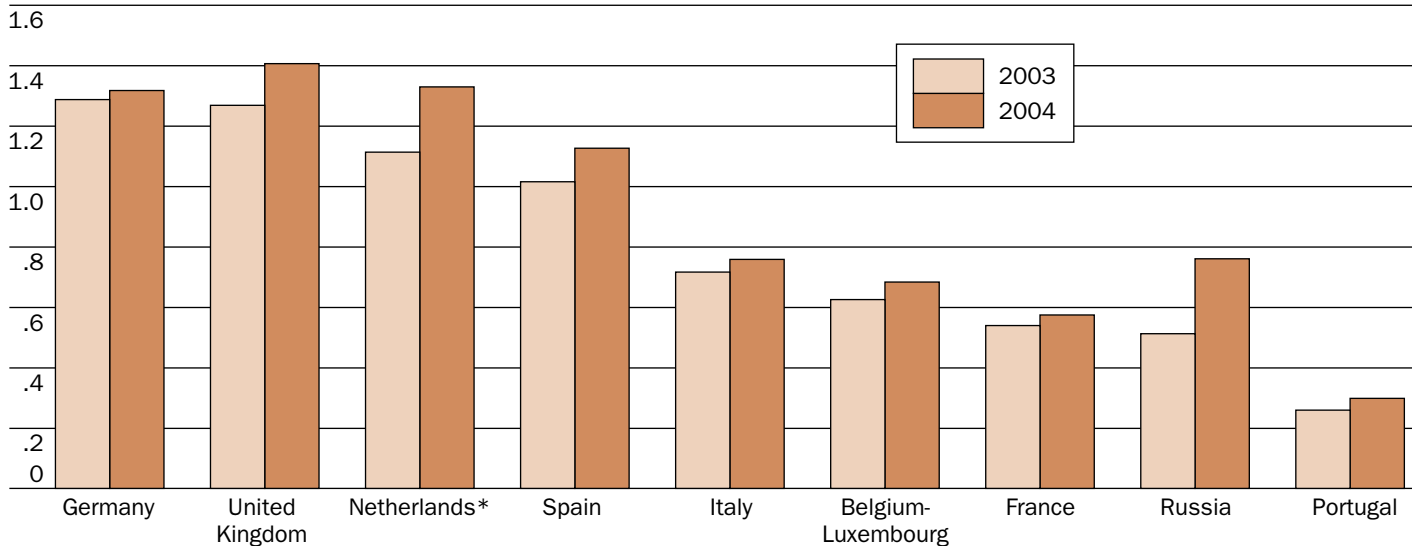
Chart Spread

U.S. Agricultural Trade in Europe

European Countries Make Up 9 of the Top 35 Markets for U.S. Agricultural, Fish and Forest Products

In fiscal 2004, all of those countries increased their purchases of U.S. products from the previous year. Five of them—the United Kingdom, the Netherlands, Spain, Russia and Portugal—showed double-digit growth in their imports.

\$ Billion



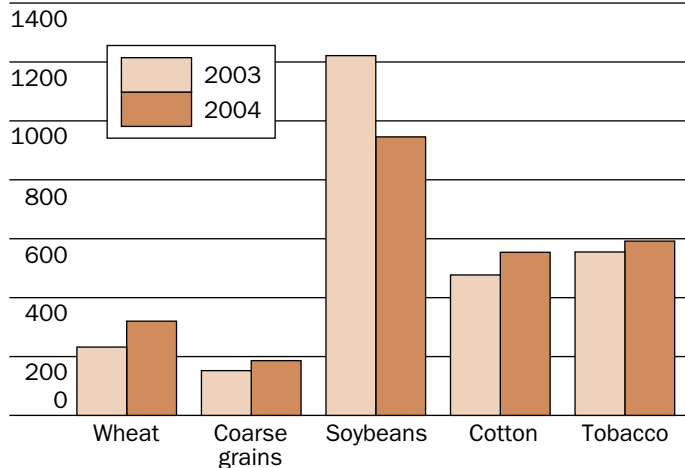
* Includes transshipments to other countries.

Europe Constitutes a Major—and Growing—Market for Many U.S. Products

In fiscal 2004, Europe as a whole purchased \$10 billion worth of U.S. agricultural, fish and forest exports, up 9.6% from a year earlier and 14% of the U.S. total of \$71.2 billion. Here's a look at which U.S. products sell best in the region.

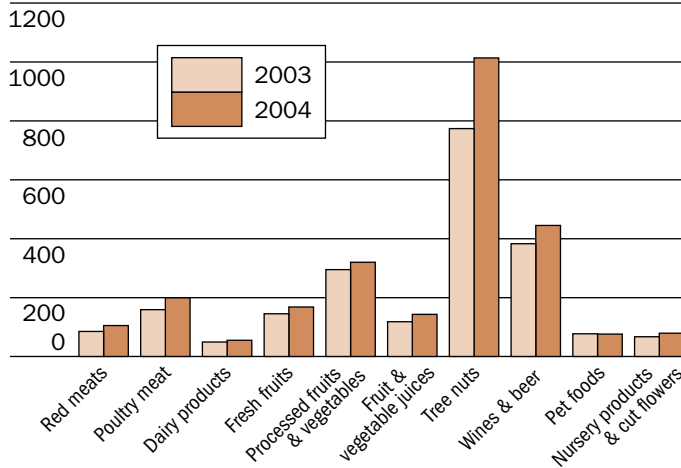
Bulk Export Sales Totaled \$3 Billion in Fiscal 2004, Down 1.5% From 2003

\$ Million



Consumer-Oriented Exports Rose 19% Totaling a Record \$3.1 Billion

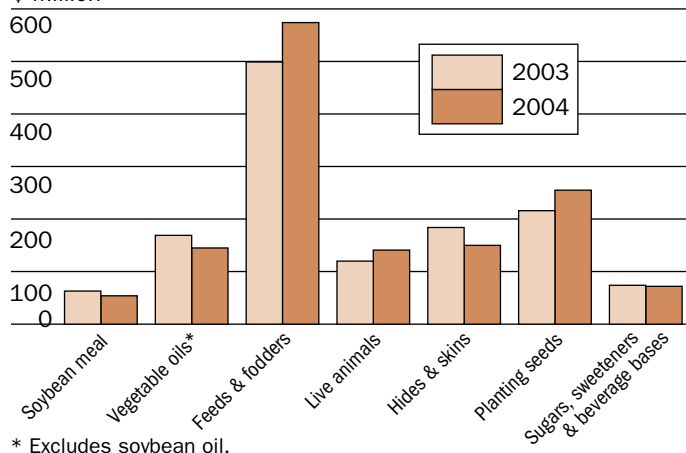
\$ Million



e-Sources

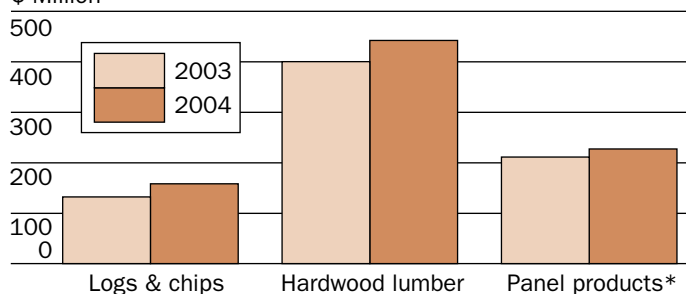
Intermediate Exports Reached \$2.1 Billion, Up 5%

\$ Million



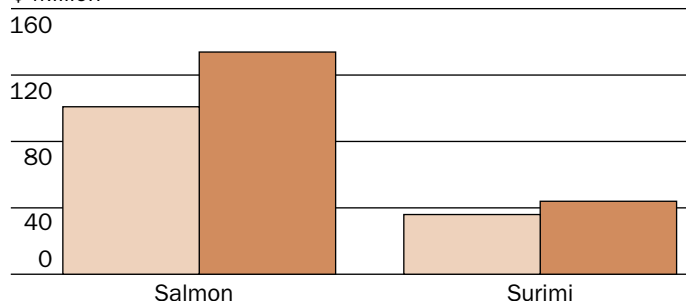
Forest Exports Totalled Over \$1 Billion, Up 13%

\$ Million



Fish Exports Surged 36% to a Record \$803 Million

\$ Million



European Union

Information on the history, structure and activities of the EU (European Union) is available at the organization's home page.

Web site: http://europa.eu.int/index_en.htm

Information on ratification of the EU's constitution also can be found on the site.

Web site: http://europa.eu.int/futurum/ratification_en.htm

European Food Safety Authority

This organization is the keystone of EU risk assessment of food and feed safety.

Web site: www.efsa.eu.int

FAS Resources on the EU

The site of the FAS office at the U.S. Mission to the EU in Brussels, Belgium, provides extensive information on many topics, including key issues, food and feed import rules, import duties and quotas, reports and market data and certification requirements.

Web site: www.useu.be/agri/usda.html

FAS Report: What's New in Central Europe

This newsletter provides an update on upcoming market promotions and an overview of recent market trends, trade policy issues and commodity analyses for Austria, Bosnia-Herzegovina, Croatia, the Czech Republic, Hungary, Slovenia and Slovakia.

Web site: www.fas.usda.gov/scriptsw/attacherep/attache_lout.asp

ERS Resources

USDA's Economic Research Service offers a significant body of research and analysis on international agriculture.

Web site: www.ers.usda.gov/topics/view.asp?T=103008 ■



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Grenada, Guadeloupe, Martinique,
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Oceania

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Belgium

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Bulgaria

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 Moldova,
 Romania, Serbia and Montenegro
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